

ORIGINAL

OPEN MEETING

MEMORANDUM



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AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

TO: THE COMMISSION

2016 APR 15 AM 10 21

APR 15 2016

FROM: Utilities Division

DATE: April 15, 2016

DOCKETED BY	<i>KG</i>
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RE: IN THE MATTER OF THE APPLICATION OF SOUTHWEST GAS CORPORATION FOR APPROVAL OF THE ESTABLISHMENT OF JUST AND REASONABLE RATES.

SUBJECT: SOUTHWEST GAS CORPORATION – APPLICATION FOR APPROVAL TO SET CUSTOMER OWNED YARDLINE COST RECOVERY MECHANISM SURCHARGE RATE (DOCKET NO. G-01551A-10-0458)

On February 29, 2016, Southwest Gas Corporation (“Southwest” or “Company”) filed a request for approval of the Company’s customer-owned yard line (“COYL”) surcharge. Southwest’s application requested a surcharge of \$0.006 per therm, effective June 1, 2016.

Southwest’s filing is pursuant to provisions contained in a settlement agreement approved by the Commission in Decision Number 72723 (January 6, 2012) to establish a COYL program that would survey existing COYLs and replace COYLs that are found to have leaks. A COYL is a service line where the meter is generally located at the property line or public right-of-way, some distance from the customer premises, and the customer currently owns and is responsible for replacing/repairing the service line if there are any problems with it. Southwest no longer installs COYLs, but rather locates the meter at the building or structural wall of the customer premises. Customers may not properly maintain their COYLs or even be aware of their responsibility to maintain their COYLs, creating a potential safety hazard due to corrosion and leakage.

Under the COYL program approved in Decision Number 72723, Southwest was given \$1 million annually in base rates to acquire necessary leak detection equipment and conduct a leak detection survey of all the COYLs over a 3 year period. Southwest was also permitted to replace COYLs discovered through the COYL survey or from a leak survey following an odor call complaint and recover capital investment related to the COYL replacement program through a COYL cost recovery mechanism (“CCRM”), as detailed in the settlement agreement. The CCRM surcharge is not permitted to be greater than \$0.01 per therm in any single year and would be reset annually. In Decision Number 74304 (January 29, 2014), the Commission expanded the COYL replacement program to allow COYL replacements to take place in coordination with other pipeline replacement projects, regardless of whether the COYL is leaking. Southwest considers the initial COYL program to be Phase 1 and the COYL replacements in coordination with pipeline replacement projects to be Phase 2.

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In Decision No. 73883 (May 8, 2013), the Commission approved Southwest's initial CCRM surcharge of \$0.00101 per therm, effective June 1, 2013. This surcharge was based upon total COYL spending of \$4.1 million in 2012. In Decision No. 74499 (May 23, 2014) the Commission approved a CCRM surcharge of \$0.00231 per therm, effective June 1, 2014. This was based upon total COYL spending through the end of 2013 of \$9.8 million. In Decision No. 75095 (May 19, 2015), the Commission approved a CCRM surcharge of \$0.00432 per therm, effective June 1, 2015. This was based upon total COYL spending through the end of 2014 of \$16.0 million.

Southwest's current filing reflects total spending of approximately \$4.6 million on Phase 1 and \$2.5 million on Phase 2 in 2015, resulting in Southwest's request to increase the CCRM surcharge to \$0.006 per therm, effective June 1, 2016. Spending through the end of 2015 on the COYL program totals \$19,950,221 for Phase 1 and \$3,152,402 for Phase 2, for a grand total of \$23,102,623.

The COYL program initially involved a three year period, 2012-2014, when all potential COYLs would be inspected unless something prevented Southwest from inspecting them. Thus in 2015, Southwest began a second three year cycle to again inspect COYLs that have not been replaced. The table below shows information on the COYL program activities for the first three year period of 2012-2014 and then for 2015, the first year of the second three year cycle.

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	2012-2014 Activities	2015 Activities
<i>Phase 1</i>		
Total Lines Inspected or Attempted to be Inspected	130,513	38,574
Lines Identified as Not Being Eligible Under the COYL Program	26,205	719
Lines Identified as COYLs	104,308	37,855
<i>Of Lines Identified as COYLs:</i>		
Number Passing the Survey	54,927	20,666
Number Identified as Leaks	6,296	1,593
Number Refusing to allow Southwest to Survey	8,954	2,772
Number Southwest was Unable to Contact	34,072	10,308
<i>Of Lines Identified as Having Leaks:</i>		
Number of COYLs Replaced	5,929	1,466
Replacements in Progress at the Time of Southwest's Filing		21
Number Undecided as to Whether to Replace		11
Number Declining Replacement of Leaking COYL	219	95
<i>Phase 2</i>		
Number of COYLs Replaced	245	877
Replacement in Progress at the Time of Southwest's Filing	293	1,622
Number Declining Replacement of COYLs	657	875

Southwest has replaced a total of 8,518 COYLs through the end of 2015 and estimates that a further 86,205 remain to be replaced (this includes customers who have refused to have their COYL inspected or who Southwest has been unable to contact). Southwest now estimates that the COYL program would cost \$255,856,123 to replace all COYLs in its Arizona service territory.

Staff has expressed a concern in its review of the annual COYL filing in past years regarding the large number of Southwest customers who may have COYLs but either have refused to allow Southwest to inspect their COYL when contacted or whom Southwest has been unable to contact at all. Southwest has reported making additional efforts to contact such customers. Southwest held a focus group in early 2015 in the Tucson area as well as other community meetings to try to improve Southwest's communication and outreach for the COYL program. Program changes in 2015 included

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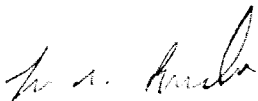
a branding of the COYL program with COYL logos, uniforms, etc., updated materials and website outreach, and an expansion of outreach to extend into evenings and weekends when customers may be more available. Southwest has indicated that it believes these efforts have increased participation in the COYL program and resulted in more contacts with potential COYL customers. Staff believes that these enhanced outreach efforts are worthwhile and beneficial. But Staff continues to be concerned with the high number of customers who have not had an inspection but may have a COYL.

Southwest has reported that under Phase 1, the rate of leak detections dropped from 9.5 percent in the first three year inspection period to 4.2 percent in 2015, the first year of the second round of inspections. Southwest has indicated that expects the annual number of COYL replacements to decline into the future as the first round of inspections and replacements can reasonably be expected to result in the most activity. Southwest also expects the cost per COYL replacement to increase in the future based on a number of factors including COYL locations, soil conditions, concentration of COYLs in a given area, length of COYLs, labor cost and material cost.

Southwest's Phase 2, where COYLs are replaced in conjunction with other pipe projects the Company is undertaking, began replacements in 2014 and activity under Phase 2 increased significantly in 2015. Southwest expects Phase 2 to be a larger part of the COYL program overall as there are less replacements annually under Phase 1. In 2016 Southwest expects to replace approximately 1,200 COYLs through Phase 1 and 1,800 COYLs under Phase 2. Long term Southwest expects the total annual replacements through Phase 1 and 2 to decline as Phase 1 sees lower leak detection rates and Phase 2 has less replacement opportunities as the early vintage plastic pipe replacement program concludes in the Tucson area.

Southwest is seeking recovery of \$19,950,221 in gross COYL plant installed in through the end of 2015 for Phase 1 and \$3,152,402 in gross COYL plant installed through the end of 2015 for Phase 2. Staff has reviewed the 2015 costs and held discussions with Southwest regarding these costs and believes that these costs are reasonable for the purpose of recovering them through the CCRM surcharge. Southwest estimates that the average residential impact of the proposed surcharge would be approximately \$0.14 per month.

Staff recommends approval of the \$0.006 per therm CCRM surcharge, effective for 12 months, beginning on June 1, 2016.



Thomas M. Broderick
Director
Utilities Division

TMB:RRG:nr\RRM

ORIGINATOR: Bob Gray

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 DOUG LITTLE

 Chairman

3 BOB STUMP

 Commissioner

4 BOB BURNS

 Commissioner

5 TOM FORESE

 Commissioner

6 ANDY TOBIN

 Commissioner

7
8 IN THE MATTER OF THE APPLICATION)
9 OF SOUTHWEST GAS CORPORATION)
10 FOR APPROVAL OF THE)
11 ESTABLISHMENT OF JUST AND)
12 REASONABLE RATES. - APPLICATION)
 FOR APPROVAL TO SET CUSTOMER
 OWNED YARDLINE COST RECOVERY
 MECHANISM SURCHARGE RATE.

DOCKET NO. G-01551A-10-0458

DECISION NO. _____

ORDER

13 Open Meeting
14 May 3 and 4, 2016
15 Phoenix, Arizona

16 BY THE COMMISSION:

17 FINDINGS OF FACT

18 1. Southwest Gas Corporation ("Southwest" or "Company") is engaged in providing
19 natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation
20 Commission ("ACC" or "Commission").

21 2. On February 29, 2016, Southwest filed a request for approval of the Company's
22 customer-owned yard line ("COYL") surcharge. Southwest's application requested a surcharge of
23 \$0.006 per therm, effective June 1, 2016.

24 3. Southwest's filing is pursuant to provisions contained in a settlement agreement
25 approved by the Commission in Decision Number 72723 (January 6, 2012) to establish a COYL
26 program that would survey existing COYLs and replace COYLs that are found to have leaks. A COYL
27 is a service line where the meter is generally located at the property line or public right-of-way, some
28 distance from the customer premises, and the customer currently owns and is responsible for

1 replacing/repairing the service line if there are any problems with it. Southwest no longer installs
2 COYLs, but rather locates the meter at the building or structural wall of the customer premises.
3 Customers may not properly maintain their COYLs or even be aware of their responsibility to maintain
4 their COYLs, creating a potential safety hazard due to corrosion and leakage.

5 4. Under the COYL program approved in Decision Number 72723, Southwest was given
6 \$1 million annually in base rates to acquire necessary leak detection equipment and conduct a leak
7 detection survey of all the COYLs over a 3 year period. Southwest was also permitted to replace COYLs
8 discovered through the COYL survey or from a leak survey following an odor call complaint and recover
9 capital investment related to the COYL replacement program through a COYL cost recovery
10 mechanism ("CCRM"), as detailed in the settlement agreement. The CCRM surcharge is not permitted
11 to be greater than \$0.01 per therm in any single year and would be reset annually. In Decision Number
12 74304 (January 29, 2014), the Commission expanded the COYL replacement program to allow COYL
13 replacements to take place in coordination with other pipeline replacement projects, regardless of
14 whether the COYL is leaking. Southwest considers the initial COYL program to be Phase 1 and the
15 COYL replacements in coordination with pipeline replacement projects to be Phase 2.

16 5. In Decision No. 73883 (May 8, 2013), the Commission approved Southwest's initial
17 CCRM surcharge of \$0.00101 per therm, effective June 1, 2013. This surcharge was based upon total
18 COYL spending of \$4.1 million in 2012. In Decision No. 74499 (May 23, 2014) the Commission
19 approved a CCRM surcharge of \$0.00231 per therm, effective June 1, 2014. This was based upon total
20 COYL spending through the end of 2013 of \$9.8 million. In Decision No. 75095 (May 19, 2015), the
21 Commission approved a CCRM surcharge of \$0.00432 per therm, effective June 1, 2015. This was
22 based upon total COYL spending through the end of 2014 of \$16.0 million.

23 6. Southwest's current filing reflects total spending of approximately \$4.6 million on Phase
24 1 and \$2.5 million on Phase 2 in 2015, resulting in Southwest's request to increase the CCRM surcharge
25 to \$0.006 per therm, effective June 1, 2016. Spending through the end of 2015 on the COYL program
26 totals \$19,950,221 for Phase 1 and \$3,152,402 for Phase 2, for a grand total of \$23,102,623.

27 7. The COYL program initially involved a three year period, 2012-2014, when all potential
28 COYLs would be inspected unless something prevented Southwest from inspecting them. Thus in

2015, Southwest began a second three year cycle to again inspect COYLs that have not been replaced. The table below shows information on the COYL program activities for the first three year period of 2012-2014 and then for 2015, the first year of the second three year cycle.

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<i>Phase 2</i>		
Number of COYLs Replaced	245	877
Replacement in Progress at the Time of Southwest's Filing	293	1,622
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8. Southwest has replaced a total of 8,518 COYLs through the end of 2015 and estimates that a further 86,205 remain to be replaced (this includes customers who have refused to have their COYL inspected or who Southwest has been unable to contact). Southwest now estimates that the COYL program would cost \$255,856,123 to replace all COYLs in its Arizona service territory.

9. Staff has expressed a concern in its review of the annual COYL filing in past years regarding the large number of Southwest customers who may have COYLs but either have refused to

1 allow Southwest to inspect their COYL when contacted or whom Southwest has been unable to contact
2 at all. Southwest has reported making additional efforts to contact such customers. Southwest held a
3 focus group in early 2015 in the Tucson area as well as other community meetings to try to improve
4 Southwest's communication and outreach for the COYL program. Program changes in 2015 included
5 a branding of the COYL program with COYL logos, uniforms, etc., updated materials and website
6 outreach, and an expansion of outreach to extend into evenings and weekends when customers may be
7 more available. Southwest has indicated that it believes these efforts have increased participation in the
8 COYL program and resulted in more contacts with potential COYL customers. Staff believes that these
9 enhanced outreach efforts are worthwhile and beneficial. But Staff continues to be concerned with the
10 high number of customers who have not had an inspection but may have a COYL.

11 10. Southwest has reported that under Phase 1, the rate of leak detections dropped from 9.5
12 percent in the first three year inspection period to 4.2 percent in 2015, the first year of the second round
13 of inspections. Southwest has indicated that expects the annual number of COYL replacements to
14 decline into the future as the first round of inspections and replacements can reasonably be expected to
15 result in the most activity. Southwest also expects the cost per COYL replacement to increase in the
16 future based on a number of factors including COYL locations, soil conditions, concentration of
17 COYLs in a given area, length of COYLs, labor cost and material cost.

18 11. Southwest's Phase 2, where COYLs are replaced in conjunction with other pipe projects
19 the Company is undertaking, began replacements in 2014 and activity under Phase 2 increased
20 significantly in 2015. Southwest expects Phase 2 to be a larger part of the COYL program overall as
21 there are less replacements annually under Phase 1. In 2016 Southwest expects to replace approximately
22 1,200 COYLs through Phase 1 and 1,800 COYLs under Phase 2. Long term Southwest expects the
23 total annual replacements through Phase 1 and 2 to decline as Phase 1 sees lower leak detection rates
24 and Phase 2 has less replacement opportunities as the early vintage plastic pipe replacement program
25 concludes in the Tucson area.

26 12. Southwest is seeking recovery of \$19,950,221 in gross COYL plant installed in through
27 the end of 2015 for Phase 1 and \$3,152,402 in gross COYL plant installed through the end of 2015 for
28 Phase 2. Staff has reviewed the 2015 costs and held discussions with Southwest regarding these costs

1 and believes that these costs are reasonable for the purpose of recovering them through the CCRM
2 surcharge. Southwest estimates that the average residential impact of the proposed surcharge would be
3 approximately \$0.14 per month.

4 13. Staff has recommended approval of the \$0.006 per therm CCRM surcharge, effective
5 for 12 months, beginning on June 1, 2016.

6 CONCLUSIONS OF LAW

7 1. Southwest Gas Corporation is an Arizona public service corporation within the
8 meaning of Article XV, Section 2, of the Arizona Constitution.

9 2. The Commission has jurisdiction over Southwest Gas Corporation and over the subject
10 matter of the application.

11 3. The Commission, having reviewed the filing and Staff's Memorandum dated April 15,
12 2016, concludes that it is in the public interest to approve a \$0.006 per therm CCRM surcharge, effective
13 for 12 months, beginning on June 1, 2016.

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ORDER

IT IS THEREFORE ORDERED that Southwest Gas Corporation's application for a CCRM surcharge of \$0.006 per therm, effective for 12 months, beginning on June 1, 2016, be and hereby is approved.

IT IS FURTHER ORDERED that this decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2016.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

TMB:RGG:nr/RRM

Decision No. _____

1 SERVICE LIST FOR: SOUTHWEST GAS CORPORATION
2 DOCKET NO. G-01551A-10-0458

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